



October 5, 2011

Bill Donaldson
Deputy Inspector General
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Mr. Donaldson,

The purpose of this correspondence is to provide clarification as well as correct factual information regarding your Report of Investigation File Number 11-075. As you are aware, we have been more than cooperative in assisting in your investigation. Due to the constraints of your investigation, there were allegations made as well as factual information which were made out of context which you may not have been aware and that we were not given the opportunity to respond. We would request that this correspondence be included as an addendum to your report to wit:

1. The executive summary of your report refers to the investigation being prompted by a 'tip' and does not indicate the source or the nature of the complaint. Subsequent information provided through the Freedom of Information Act indicates that the 'tip' was provided by a former employee whom had been terminated by Engineered Systems for Manufacturing, Inc. While this fact does not diminish the validity of the decision to proceed with an investigation, it does call into question some of the testimony of the complainant.
2. According to the testimony given by complainant, Daniel Nipper. When he was informed when hired that he would be provided uniforms for two separate companies, CESI and ESM. Mr. Nipper further alleges that he was not provided uniforms for CESI due to his size. The statement by Mr. Nipper is completely false. At no time was Mr. Nipper offered any uniforms or work related to CESI. While I do not remember ever having met Mr. Nipper, his statement that he received no uniforms only because of his size is false as CESI maintains stock of uniforms up to XXXL.
3. Mr. Nipper also testifies that the specification for Smith State Prison referenced specific equipment manufactured by CESI and ESM without allowing for alternate, equivalent systems or materials. This statement is false. The specification for the Smith project has no references requiring products of any Division 17 manufacturer. The specification is generic in its content.
4. Mr. Nipper also alleged that Michael Lovelady was a 'ghost owner' of ESM. I have no ownership in this entity nor am I involved in any of its decision making processes.



5. Footnote 13 of the report indicates that two companies that have historically bid on Division 17 projects stated that they would no longer bid on any projects on which CSC i.e. Michael Lovelady served as consultant. To put this statement in proper perspective, one of the companies, Southwest Communications, was involved on a GFSIC project on which CSC had been called in as a commissioning agent. The findings of the commissioning process indicated that the system installed by Southwest Communications had quality as well as operational issues and did not fully meet the design specifications. The issues were supported by documentation by the original design consultant on the project. As a result of these deficiencies, Southwest Communications was a defendant in a civil case brought forth by the state of Georgia. Michael Lovelady, CSC was a witness for the prosecution in this case. The other company involved, ESI, is involved on a current project in which CSC is providing consulting services. By ESI's own admission through testimony provided to OIG, they underbid the project as well as have had issues meeting the specifications of the project.
6. According to testimony provided by representatives of ESI, submittals were rejected on four submittals. To put this into perspective, submittals submitted during the same time frame by ESM on the Smith State Prison project were also rejected a total of four times.
7. According to testimony provided by representatives of ESI, CSC was forced to accept the final submittal by GDOC. This is entirely false. At no time has CSC been pressured by the department to accept submittals from any contractor that does not meet the design specifications or bid documents, specifically any submittal generated by ESI.
8. According to testimony provided by representatives of ESI, the inspections performed by CSC were either too stringent or not very thorough. This testimony is at best contradictory. A GDOC representative has been present during all inspections on this project and has been in agreement with all deficiencies noted.
9. During the prebid process as well as after bid award on the Central State Prison project, CSC, has responded to all requests for information and/or clarification that has been presented by ESI in a timely manner. The quantity of RFI's as well as change order requests have been minimal for a project of this magnitude.
10. CSC cannot provide comment on ESI's assertion that they have had no problems with other consultants with regard to quality. ESI's performance on Central State Prison can only be evaluated based on the specific bid documents and applicable codes related to this project. CSC cannot provide relief from requirements required by the bid documents without an appropriate credit from the contractor and then only with authorization by the owner.



11. Testimony provided to OIG by Rick Holmes of Southwest Communications that CSC was bidding on construction projects and that Michael Lovelady was owner of ESM is incorrect and refuted by existing evidence.
12. Footnote 15 of the report states that a former employee of CESI stated that employees were provided two set of uniforms, one for ESM and one for CESI is incorrect. Information received from OIG through the Freedom of Information Act indicates that no former employees of CESI were interviewed.
13. Footnote 15 indicated that invoices were remitted from the same email address. This is entirely true and occurred after the acquisition of ESM by Gary Lovelady in November 2011. The nature of the transition of ESM after its acquisition has been fully disclosed to the OIG, GBI, as well as GDOC. ESM has been in the process of relocating from the Norcross office since November of 2010.
14. Footnote 17 stated that Michael Lovelady admitted to OIG investigators that ESM and CESI shared employees. This statement has been clarified previously. Aside from clerical employees utilized in the Norcross location, no employees were shared or utilized by both companies as dual employees for field service work during the time period examined. Receptionist and clerical staff at the Norcross location were shared between tenants (including tenants whose business was not GDOC related).
15. Page 18, paragraph 2 states that “Gary reiterated that he was not aware of his purported fifty percent ownership in ESM until early 2010” Gary Lovelady was present at the time that paper stock was transferred at the Norcross office in 2007.
16. In the report there are several references of ESM paying rent to Michael Lovelady. To put these statements into proper context, all rents are paid to L3C Property Management, LLC. L3C manages 58 rental units consisting of commercial, warehouse, industrial and residential spaces. ESM was a tenant in a multiple suite office building along with multiple unrelated tenants prior to the divestiture of Michael Lovelady of interests in ESM. After the divestiture, ESM remained in this building with other tenants and still leases this space to date. Rental rates are based on square footage and are equitable to market rates. ESM rates were no different than other tenants occupying the building.
17. In the report there are references to “sharing” credit cards. Prior to the divestiture there were credit cards linked to a common American Express account. After the divestiture, both CSC and CESI credit card accounts were established. To my knowledge, there are no incidents of ESM credit cards being used after the divestiture.
18. In the report page 22 paragraph 2, the report states that Michael Lovelady stated that ESM paid no rent in 2010. This is incorrect. The statement was that ESM was having difficulty in paying rent in 2010. By November 2010, ESM was approximately 3 months in arrears and had been issued a notice of intent to evict.



Prior to the acquisition of ESM by Gary Lovelady, GDOC officials were notified of his intentions by Gary Lovelady as well as Michael Lovelady. Once the acquisition was completed, GDOC officials were notified that the transaction had taken place by both parties. Gary Lovelady was informed by a GDOC official that GDOC legal had reviewed the transaction and did not see any issue other than re-issuing open contracts.

CSC suggested to GDOC that the consultant contract could be terminated under Article 10 should there be an issue.

Bill Donaldson with OIG was also informed by Michael Lovelady that the consultant contract for Smith State Prison was at a good point that it could easily be assumed by another consultant should it be necessary.

The historical relationships between the entities contained within this report have always been divulged and have been public knowledge among GDOC, GSFIC, DHR and DJJ state agencies.

CESI products are standard products for the corrections industry. These products have listed prices and are available to any and all Division 17 contractors, commercial customers or end users either direct from CESI or through distributor.

At no time has either CESI, CSC or Michael Lovelady participated with ESM in preparing bids or prices prior to bids after the divestiture. ESM has never been provided prices for standard products at a rate different than offered to any potential customer. CESI has provided its standard component price list to state agencies as well as various contractors including multiple contractors bidding on the same projects.

In regards to the two Division 17 contractors, ESI and Southwest Communications that stated that they would not bid on projects on which CSC was affiliated, the following should be noted. The consultant contract is fixed price and based on the duration of the contract as well as a specific number of inspection visits. When a Division 17 contractor has quality issues or fails to meet the bid documents requirements resulting in multiple submittal submissions or multiple inspections, the consultant quickly begins to lose money on the project as has been the case with the Central State Prison contract. There is no benefit to the consultant to reject submittals or reject work performed. It is the best interest of the consultant that the contractor meet the bid document requirements as well as maintain the project schedule.

I do not feel that a conflict of interest existed prior to the acquisition of ESM by my son, Gary Lovelady. Since my divestiture in ESM, I have had no knowledge as to the financial details, daily operations or which projects ESM was involved in or considering pursuing. I do see however where the conclusion of an appearance of a Conflict of Interest could be made if the conclusion were to be drawn from inaccurate information.



As a stockholder only and not a corporate officer in ESM, Gary Lovelady had the same working knowledge of ESM as he does with Home Depot of which he is also a stockholder. Once the acquisition occurred, both myself and Gary Lovelady were concerned over the appearance of a conflict of interest especially regarding the Smith State Prison Contract and contact officials at GDOC were notified. From my understanding, the situation was under review and we would be notified if any changes regarding respective contracts were required.

At no point was any information withheld from our contacts at GDOC, the GBI or the OIG regarding the relationship of these entities.

I would appreciate your publishing this response as part of your report in order to provide additional clarification as well as correct any errors or omissions.

Regards,

Michael Lovelady